

Amhara Credit and Savings Institution: Observations and Recommendations

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**BROADENING ACCESS AND
STRENGTHENING INPUT MARKET SYSTEMS**

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EXECUTIVE SUMMARY

The Microfinance Credit Consultant, Karl Jensen, carried out an extensive review of the Amhara (State) Credit and Savings Institution (ACSI) from June 17 to July 15, 1999. Initial, mid-term, and final consultations were held with USAID/Addis Ababa. A limited number of interviews were held in Addis Ababa; all other work was carried out in and around Bahar Dar, the capital of Amhara State, and the headquarters of ACSI. All headquarters staff of ACSI were interviewed, a limited number of branch managers and staff, and numerous sub-branch credit officers, managers, auditors, and support staff.

The ACSI staff, from the highest ranking headquarters staff to the credit officers in the field, show exceptional dedication to their tasks and their clientele. At the time of this review, just over 1,000 total staff were providing credit and savings services to more than 108,000 clients throughout Amhara State. Communication linkages and travel conditions are variable and difficult, yet ACSI has managed to maintain a credit portfolio with more than 97 percent on-time repayments. With 34 million birr (US\$4.25 million) outstanding in credit and 19 million birr (US\$2.375 million) in savings, ACSI can be viewed as a major player among the world's microfinance organizations.

There is no question that ACSI is dedicated to serving the rural poor; its average loan size is approximately US\$100. A modified "Grameen approach" is utilized for extension and collection, but the loans (and savings) are issued and recorded by individuals. At present, one must be a member of a group, however, to qualify for a loan. There is a compulsory savings component to become eligible for a loan, but the minimum savings contribution is only about US\$0.12 per month. Nearly US\$750,000 have been captured as voluntary ("non-client") savings.

ACSI requires assistance with its training system. The sheer number of current staff, which universally requested skills upgrading through training, and the increasing number of new staff required to serve a growing organization demand a regularized training and set curriculum.

ACSI's main weak point at present is its management information system (MIS). Infrastructure in Ethiopia in general is weak, but a rudimentary system for improved MIS is proposed using stand-alone workstations at the 15 branch offices, a MIS department at headquarters, and a communications system utilizing fax machines for data transfer between the branch offices and headquarters. Further improvement could be achieved by establishing radio contact between the branch offices and the 160 sub-branches, if feasible.

Although there is still unmet demand for the current credit and savings instruments offered by ACSI, new or modified products should be explored at this time. Technical assistance is being proposed to assist with development of these products, as well as for training and improvement of the MIS.

Additional capitalization can be well utilized by ACSI. A modest sum is proposed within this report. When the MIS system is improved so that credit and savings data can be more rapidly compiled and analyzed, USAID or other donors could certainly assist Amhara State's rural poor by further investment in ACSI.

AMHARA CREDIT AND SAVINGS INSTITUTION

The following observations and recommendations were developed over a time span of four weeks. In addition to working directly with the Amhara Credit and Savings Institution (ACSI), the consultant also held extensive discussions with USAID/Addis Ababa management and staff. This report is not entirely descriptive but should provide direction to USAID if it does wish to enter into a relationship with ACSI. The recommendations at the end of this report are modest. USAID could build a relationship with ACSI without becoming too heavily involved with the organization.

ACSI is an accredited and licensed microfinance institution in Amhara State. The origins of the organization begin with the Organization for Rehabilitation and Development in Amhara, which was formed in 1984. As the crisis situation in Amhara ended, the founders of ACSI began to look at the longer term needs of Amhara, which led to the founding of ACSI in 1994 (with formal registration in September 1995). From the institution's inception, ACSI leadership saw the provision of credit and savings services as a major trigger in moving people from poverty to being microentrepreneurs. Banking services are essentially unavailable in the rural areas of Amhara; ACSI is the sole service provider of financial services in these areas.

ACSI started modestly in 1995 with six branches and about 40 employees. It now has 15 branches and 160 sub-branches with over 1,000 employees, and it is providing credit and savings services to 108,000 clients. ACSI's outstanding credit portfolio is 34 million birr, with savings in excess of 19 million birr.

OBSERVATIONS

Institutional Focus

ACSI is clearly dedicated to serving the poorest sectors of Ethiopia's economy, and this is reflected by its client selection mechanism. It is clear that Amhara's women and men are being served well by ACSI. The delivery mechanism for both credit and savings is transparent.

Methodology

The methodology of utilizing groups for savings build-up extension, collection, and enforcement of loans has been translated quite well to Amhara's varied cultures and conditions. The movement away from input credit and more to microbusiness finance should serve the institution well. Although widespread coverage of the region is laudable, the vast nature of the region leads to problems in communication and supervision.

Staff

The staff, from top management to field workers, are incredibly dedicated to helping ACSI reach its stated objectives of providing credit and savings services to the rural poor. The staff work under adverse conditions, but they still manage to maintain a sound portfolio. All staff underwent a rigorous training before actually being fielded, but they universally voice a need for skills upgrading.

Cost of Services

ACSI is working with a very narrow spread between the cost of funds and its end-use interest rate, probably one of the lowest in the world among microfinance institutions. However, salaries are low (although competitive with other organizations in Amhara) and offices and furnishings are Spartan. The management structure is very lean when compared with the total number of field workers. At this time, the end-use interest rate would have to be considered too low for long-term sustainability.

Management Information System

The management information system (MIS) at present is entirely manual until it reaches the headquarters level. At the head office, data is being entered into spreadsheets, but the head office is still dependent on physical transportation of the handwritten data to headquarters, with the attendant time lags. Some offices are at least two days or more travel from the head office. The combined problems of communication and transportation hinder ACSI's ability to tightly supervise its widespread network of branches and sub-branches.

Loan Product

ACSI offers a very limited range of loan products, which is a benefit to a relatively new institution. The basic product is a loan of 6 to 12 months in length, with monthly repayments in the case of microbusiness finance and a single repayment for agricultural input finance. As ACSI reduces its portfolio in input finance, the product range will become even narrower.

Savings Services

Although the total amount of savings accrued thus far by individuals is relatively small, ACSI is the only institution providing savings services throughout the region. The compulsory savings approach is a good method of helping build member discipline, and ACSI should be lauded for the amount of savings it has accrued from people who are living on the margin of the economy. ACSI is also accruing savings from organizations in the far-flung areas that would not have a sound alternative for their deposits. This also allows ACSI to increase its loan portfolio.

RECOMMENDATIONS

Mission

ACSI should not waver from its primary mission of serving Amhara's rural poor with financial services. There is still huge amount of unmet demand for its services. As of this writing, ACSI had about 108,000 clients, with almost exactly half being women. It should continue this even split genderwise. There does not appear to be any discernable difference in repayment patterns. ACSI's men borrowers are just as reliable as women borrowers.

Methodology and Products

The methodology of utilizing groups for extension, client selection, client supervision, savings accrual, and loan collection appears to suite a huge number of the region's populace. This approach is a good local translation of the Grameen product being used in Bangladesh. The group approach provides an avenue for education for clients newly entering the world of formal finance. As individuals begin to improve their businesses and begin to require loans larger than are currently available through ACSI's group approach, serious consideration must be given to offering individual loans. The group approach is sound for bringing people into the formal financial world, but as individuals become more sophisticated, so must ACSI's loan products. Shorter term loans may need to be offered, particularly for clients involved in businesses with inventory rollover, such as marketplace vendors.

Training

The staff, particularly the field staff, universally voice a need for skills upgrading. They seem to be clear on ACSI's objectives and methodologies, but they will need new and better skills as the portfolio becomes increasingly focused on microbusiness finance. They will need to have the ability to assist the potential borrowers construct cash flows. As businesses grow, they will need to be able to help their clients plan growth and evaluate assets and liabilities.

ACSI currently has more than 1,000 employees, and it is assumed it will continue to grow in the future. Training is conducted by senior staff, which is laudable, but training, like management, is a full-time job. A training coordinator should be appointed. It is probably not required to build a training center, at least in the near term; other facilities are available. The training division, however, could also establish a library of information on microenterprise finance and development, and ensure that training delivered is consistent, repeated, and upgraded. ACSI does not have a financial incentive program based on portfolio performance for its staff (which should be considered), but training is also viewed as an incentive for the staff. ACSI is large enough to provide an avenue for advancement of top performers, which generally helps with retaining talented staff.

Client training *per se* is not recommended at this time; international experience has never really shown a return on investment. However, upgrading the business knowledge and skills of the field staff, so that they can pass on this improved knowledge to clients, is highly recommended.

Management Information System

The current system is barely adequate for the needs of ACSI. Although no MIS is ever complete, ACSI needs to have its management capabilities keep pace with its portfolio expansion. The current system needs to be upgraded in the very near term. Until the MIS is improved, planning and monitoring cannot be effectively carried out.

It is proposed, as an initial step, to place a stand-alone computer and printer at each of the 15 branch offices; all branch offices have electricity. Compilation and disaggregation of data from the sub-branches can take place at this level. Installation of a plain paper facsimile machine will then allow the branch offices to submit reports on a precoded form and to receive detailed queries back. Ten of the branches have direct phone lines, and the other five work through a switchboard.

The head office will also need to establish an MIS center, with a dedicated manager, where reports from the branches can be either compiled or disaggregated. If management then sees problems or aberrations in trends, it can then communicate back directly with the branches to establish more detail.

A more sophisticated management and control system for ACSI will allow it to carry out more functions as a network bank. Savings deposited at one sub-branch could be withdrawn at another. Deposits made with the ACSI system at a central level for such items as payroll and pensions could then be withdrawn from a local sub-branch. However, one should take precautions before entering these more sophisticated transactions. A tightly designed and managed information system would have to be in place before ACSI entered these potentially profitable operations. Inter-bank cash transfer mechanisms also would have to be established and tested.

Transportation and Communication

Transportation at all levels of ACSI is difficult under the best of circumstances. Credit officers often have to walk four to eight hours one way to service a center. The sub-branches themselves are often a day's travel from the branches; branches are anywhere from one minute to two day's travel from headquarters.

Along with some additional four-wheel drive vehicles for headquarters staff, the branch offices and many of the sub-branch offices need motorcycle for transport. Although the loan officers might not be able to reach all of the centers by motorcycles, they could get

considerably closer and reduce their travel time. However, even if ACSI were able to obtain grant funds for motorcycle and vehicle purchase, operational costs would increase. This would argue for increased end-use interest rates.

Even with the installation of computers and fax machines at the branch level, communication with the sub-branches requires physical movement. A possible solution to this problem would be the provision of two-way radios at the sub-branch level. Phone service is extremely limited at the sub-branches. Even though the purchase of radios would represent an initial cost, the operation would be relatively cheap. Communication times would have to be established. Written records would still need to be moved from the sub-branches to the branches for verification, but considerable information could be transferred orally.

Loan Products

The basic loan product the ACSI offers is simple, clean, and direct. The loan period is from 6 to 12 months, with monthly repayment. As ACSI reduces its agricultural input portfolio and increases its microenterprise portfolio, products like shorter term loans with shorter amortization periods should be explored. Individuals who prove themselves reliable and people with growing businesses under the group-lending approach could qualify for larger and individual types of finance. The business entities that do grow may also require fixed asset loans above and beyond their working capital requirements. These products should be developed and tested before they are provided on a widespread basis.

Savings Services

ACSI is providing a valuable savings service in the rural areas. Individual compulsory savings is growing and should continue from all clients that stay within the system. "Non-client" savings services are also available to individuals and organizations that want a safe and secure place to place their savings. It might also be worthwhile to explore the possibility of receiving term deposits from larger organizations in urban areas. There is experience from other countries where large social organizations, like the Rotary or Lions, will place excess funds with a budding microfinance institution to allow them to expand their loan portfolio. This can happen once ACSI becomes an established bank serving the rural poor.

Office Space and Furnishings

ACSI deserves credit for maintaining a low-cost operation, but it needs to upgrade its physical facilities. At sub-branches, records are stored in cardboard boxes often stacked in bookshelves made of peeled wood. The offices themselves range from tiled to packed dirt floors. The branch offices might be slightly better, but they still seriously lack equipment. The headquarters itself is severely cramped for space. If assistance is available, ACSI would greatly benefit from any assistance that would include furnishings, calculators, filing

cabinets, or facility upgrading. ACSI needs to look more like a bank, while still retaining its low-key image.

Technical Assistance

ACSI is facing a large number of challenges in the near term. As the institution continues to grow and diversify, new problems and opportunities will continue to arise. Worldwide, there is a broad range of experience in the development of microfinance institutions; it would be very helpful to bring more of that experience to bear on ACSI. It is proposed that the services of short-term experts be obtained to assist ACSI in reaching its objectives. Expertise areas such as savings services, loan product development, training, management information systems, internal audit and controls, and promotion illustrate the types of assistance that could be obtained. All of this would be for the betterment of fine institution.

Capitalization

There is enormous demand for ACSI's financial services throughout the Amhara region; one estimate indicates that nearly 90 percent of the region's population could utilize services like ACSI's. It appears, once a viable MIS is put in place, that ACSI could put to good use additional capitalization, above and beyond its own build-up of savings. The institution appears to be handling its funds well, but it should be able to gain further outreach without adding much staff.

RECOMMENDATIONS FOR USAID ASSISTANCE TO ACSI

MIS Development

ACSI's most critical need in the very near term is to improve its management information system. The straight manual system being used (until final compiling at the headquarters) does not allow for proper supervision and follow-up of ACSI's large and growing portfolio.

ACSI's immediate needs could be addressed as follows:

- 15 stand-alone personal computers (one per branch office)
- 15 laser or laser-jet printers (one per branch office)
- 15 plain paper fax machines (one per branch office)

It is also recommended that five additional personal computers be purchased for the headquarters in Bahar Dar. This should allow for a proper MIS department to be established. The Contracts Office felt that this component could probably be done through local purchase.

The estimated cost of this component is \$25,000.

Technical Assistance

ACSI could obviously benefit from outside technical assistance. The recommendation would be to provide a range of technical assistance over the next two to three years. There is a broad range of experience available through a number of U.S.-based firms. It is recommended that 16 person-months of short-term expertise be provided over a two-year period, subject to results. An illustrative list of expertise to be provided is shown below:

- International Coordinator Microfinance Specialist (six months over two years)
- Management Information Specialist (three months over two years)
- Training Specialist (three months over two years)
- Savings Instrument Specialist (two months over two years)
- Other specialists to be determined (two months over two years)

The estimated cost of this component is \$400,000.

Office Equipment and Transportation

ACSI's headquarters, branches, and sub-branches are extremely modest. Although upgrading physical facilities might not be appropriate at this time, items such as metal filing cabinets and bookshelves would be highly desirable, as well as additional battery-powered calculators. The 15 branch offices and 160 sub-branches all appear to need these basic office items.

It is estimated that \$54,000 would be required for this component.

Low-Cost Delivery System

ACSI has a very low-cost delivery system. It costs ACSI only about \$.07 for every \$1 delivered, which compares very favorably with microenterprise finance systems worldwide. At this time, ACSI is covering about 97 percent of its operating costs, which is quite good given the organization's newness and its lack of exposure to other microfinance institutions worldwide. With an effective end-use interest rate of 12 percent and an effective savings rate of 6 percent, ACSI's margins are probably too small to be really sustainable over the long term, although they have nearly reached break even. A key element in the technical assistance described above would be to help ACSI focus on these issues. At present, nearly all of its loanable capital is in circulation; it is still short of cash. It is providing services across a broad area of Amhara where no other institution is providing services. The organization should be able to provide considerably more with additional funding.

It is proposed that USAID provide \$500,000 in capital infusion to ACSI with the following provisions. Given current lending and savings rates, ACSI should be able to add at least 5,000 borrowers to its portfolio as a direct result of USAID's investment. Once the proposed MIS is put in place, it would take little effort on USAID's part to receive the required reports.

USAID might also want to maintain the proviso that ACSI maintain approximately 50 percent women clientele. That should not be a problem since ACSI seems dedicated to maintaining this ratio.

The estimated cost of this component is \$500,000.

Summary of Cost Estimates

- MIS Equipment and Installation: \$25,000
- Technical Assistance: \$400,000
- Office Equipment: \$54,000
- Capital Investment: \$500,000